

2020/21 Draft Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit

1. Introduction

1.1 The Annual Audit Report summarises the findings arising from the Partnership's 2020/21 external audit.

2. Main Report

2.1 The unaudited Annual Accounts were noted by the Partnership at its meeting on 18th June 2021 and submitted to the appointed external auditor – Azets Audit Services.

2.2 There are no qualifications to the draft audit certificate. The Auditor's draft opinion states that the financial statements present a true and fair view of the Partnership as at 31st March 2021 and its income and expenditure for the year then ended.

2.3 The audit opinion is subject to the completion of the following areas of work:

- review of most recently provided audit evidence;
- consideration of events subsequent to the balance sheet date; and
- final checks and review, including for accuracy and consistency.

2.4 The key messages from the audit are presented on pages 3 to 6 of the draft External Audit report.

3 Recommendations

It is recommended that the Performance and Audit Committee note:

3.1 the draft Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit;

3.2 refer the Annual Audit Report to the meeting of the Partnership Board on 24th September 2021.

Hugh Dunn
Treasurer
6th September 2021

Appendix Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit
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| | |
|-----------------------------|--|
| Policy Implications | There are no policy implications arising as a result of this report. |
| Financial Implications | There are no financial implications arising following issue of an unqualified Audit certificate. |
| Equalities Implications | There are no equality implications arising as a result of this report. |
| Climate Change Implications | There are no climate change implications arising as a result of this report. |



South East of Scotland Transport Partnership

Draft 2020/21 Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit


September 2021



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Key messages



This report concludes our audit of the South East of Scotland Transport Partnership (“the Partnership”) for 2020/21.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

| | |
|---|--|
| <p>Audit opinion</p> | <p>The Partnership’s annual accounts for the year ended 31 March 2021 are due to be considered by the Performance and Audit Committee on 10 September 2021 and approved by the Partnership on 24 September 2021.</p> <p>We report unqualified opinions within our draft independent auditor’s report. Our audit opinion is subject to the completion of the following areas of work:</p> <ul style="list-style-type: none"> • Review of most recently provided audit evidence; • Consideration of events subsequent to the balance sheet date; and • Final checks and review, including for accuracy and consistency. |
| <p>Key findings on audit risks and other matters</p> | <p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>The Partnership had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers</p> |
| <p>Audit adjustments</p> | <p>We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflect in the final set of accounts.</p> |
| <p>Accounting systems and internal controls</p> | <p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Partnership’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p> |

Wider scope audit

Our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Annual governance statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2021 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

Financial sustainability

Auditor judgement



Three year financial plans (commencing 2021/22) have been developed and approved by the Partnership. There continues to be level of uncertainty around the impact of the COVID-19 pandemic on the transport and mobility sector and as a result, the Partnership will continue to closely monitor the position.

As at 31 March 2021 the Partnership holds an unallocated general fund reserve of £29,000, which meets the minimum level required by its Reserves Policy. This has only been achieved through unplanned underspends and we encourage the Partnership to continue to reflect on its strategy to maintain, utilise or further build up the unallocated general fund reserve as part of the annual budgeting process.

With Scottish Government grant funding and council requisitions remaining the same level, representing a reduction in real terms, the Partnership relies

on external funding to ensure a balanced position. The Partnership has identified a key objective within its Business Plan 2021/22 to 2023/24 to increase funding levels as a result. The main change in external funding is the reduction in EU grants. With existing projects ending over the next two years, funding will reduce from £106,000 in 2021/22 to nil by 2023/24. The Partnership do not see this as a significant risk to its financial sustainability but are looking into arrangements to succeed those currently in place.

Definition

Our wider scope audit involves consideration of the Partnership's arrangements as they relate to financial sustainability. We have used the following grading to provide an overall assessment of the arrangements in place.



Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

1. This report summarises the findings from our 2020/21 audit of the South East of Scotland Transport Partnership (“the Partnership”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Partnership at the outset of our audit. The core elements of our work include:
 - an audit of the 2020/21 annual accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

3. The Partnership is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
5. We would like to thank all management and staff at both the Partnership and City of Edinburgh Council for their co-operation and assistance during our audit.

Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remain independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

11. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Partnership through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Partnership promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Financial statements audit



The Partnership's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Overall conclusion

12. The annual accounts are due to be considered by the Partnership on 24 September 2021. Our draft independent auditor’s report is unqualified.
13. We received the unaudited annual accounts and supporting papers of an adequate standard, in line with our agreed audit timetable. Our thanks go to staff at the Partnership and City of Edinburgh Council for their assistance with our work.

Our audit opinion

| Opinion | Basis for opinion | Conclusions |
|-----------------------------------|--|---|
| Financial statements | <p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p> | <p>We intend to issue unqualified audit opinions.</p> |
| Going concern basis of accounting | <p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Partnership’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Partnership.</p> | <p>As at 31 March 2021, the Partnership reported a net liability position of £0.567million. This includes the net pension liability of £0.990million.</p> <p>We reviewed the financial forecasts for 2021/22 and are satisfied that the Partnership has adequate budget to meet the ongoing employer contributions required by Lothian Pension Fund. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Partnership will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.</p> |

| Opinion | Basis for opinion | Conclusions |
|---|--|--|
| <p>Opinions prescribed by the Accounts Commission on:</p> <ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Remuneration Report | <p>We read all the statutory information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with;</p> <ul style="list-style-type: none"> • Statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • The Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and • The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report). | <p>The statutory other information contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • The management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. • The information given in the annual governance statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014. |
| <p>Matters reported by exception</p> | <p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or | <p>We have no matters to report.</p> |

| Opinion | Basis for opinion | Conclusions |
|---------|---|-------------|
| | <ul style="list-style-type: none"> we have not received all the information and explanations we require for our audit. | |

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Partnership in March 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Partnership. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override

Significant risk description

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.

Audit procedures

- Review of the Partnership's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Partnership could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present in requisitions received from the constituent local authorities or Scottish Government grant funding due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- Evaluate the significant revenue streams and review the controls in place over accounting for revenue.
- Consideration of the Partnership's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for requisitions from constituent local authorities and Scottish Government grant funding. Our conclusion remained the same throughout the audit.

Based on the work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

3. Expenditure recognition

Significant risk description As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Partnership's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

4. Pension assumptions (significant accounting estimate)

Significant risk description

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.

Audit procedures

- Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.
- Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.
- Agree the disclosures in the financial statements to information provided by the actuary.
- Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key observations

As at 31 March 2020, the Partnership showed a net pension liability of £661,000. By 31 March 2021, this had increased to a net pension liability of £990,000.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31 March 2020 formal valuations for Scottish LGPS Funds were concluded by 31 March 2021.

The accounting balance sheet position as at 31 March 2021 is based on the roll forward from the 2020 formal valuation. This differs to the balance sheet position as at 31 March 2020 which was based on a roll forward from the 2017 formal valuation. This 'step change' can lead to sizeable asset and obligation 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2020

to 31 March 2021. In addition, reductions in the discount rate increase the pension liability.

We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Other risk factors

Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

| Area considered | Description | Conclusion |
|--------------------------|---|--|
| Access to audit evidence | Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely. | <p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We will stay in close contact with Partnership and City of Edinburgh Council colleagues right up until the point of accounts signing, to ensure all relevant issues are satisfactorily addressed.</p> |

| Area considered | Description | Conclusion |
|--------------------------|---|---|
| <p>Timescales</p> | <p>The pre COVID-19 deadline was 30 September and the provision deadline for 2020/21 was 31 October. The Scottish Government amended the accounts regulations to require the 2020/21 annual accounts to be signed off by 31 October (amended from 30 September) and published by 15 November (amended from 31 October).</p> <p>However, the provision of the Coronavirus (Scotland) Act 2000 (which permitted bodies to delay publication of the 2019/20 accounts until reasonably practicable) have been extended. ‘Reasonably practicable’ was considered to be 30 November and this date is considered appropriate for 2020/21. The extension of the Act also allows flexibility over the date (usually 30 June) for the unaudited accounts.</p> | <p>The Partnership committed to continue with its original timetable; for both the publication of the unaudited accounts and approval of the audited accounts. The annual accounts are due to be considered by the Performance & Audit Committee on 10 September 2021 and the Partnership on 24 September 2021.</p> |

Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, pension assumptions, depreciation, and
- accruals. Other than pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.
22. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Pension assumptions

Balanced

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

We reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

The Partnership has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty.

Materiality

23. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Partnership and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
25. Our initial assessment of materiality for the Partnership's financial statements was £31,500. On receipt of the unaudited annual accounts, we reassessed materiality and updated it to £23,000. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£23,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£17,250



75%

Work performed to capture individual errors at this level

Trivial threshold

£1,150



5%

All errors greater than this level are reported

Materiality

Our assessment is made with reference to the Partnership's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 1.5% of the Partnership's gross expenditure as disclosed in the 2020/21 unaudited annual accounts.

In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

Trivial misstatements

Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

26. We are pleased to report that there were no material adjustments to the unaudited annual accounts or unadjusted audit differences. We identified some disclosure or presentational adjustments during our audit, which have been reflected in the final set of accounts.

controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Partnership. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Internal controls

27. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal

Follow up of prior year recommendations

28. We followed up on progress in implementing the one outstanding audit recommendation from the prior year. Detail on this recommendation is included in the action plan at Appendix 3. We have reported this action as closed.

| Area | Assessment | Comment |
|---------------------------------|---------------------|---|
| Control and process environment | Satisfactory | We consider the control environment within the entity to be satisfactory. |
| Quality of supporting schedules | Satisfactory | The supporting schedules received during the course of the fieldwork were of a high standard and sufficient for our audit purposes. |
| Responses to audit queries | Satisfactory | Management and City of Edinburgh Council responses to our audit queries were appropriate and received on a timely basis. |

Other communications

Accounting policies, presentation and disclosures

29. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Partnership.

30. The accounting policies, which are disclosed in the annual accounts, are considered appropriate.
31. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

32. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

33. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
34. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

35. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Partnership. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

The Local Authority Accounts (Scotland) Regulations 2014

36. As part of our audit we reviewed the Partnership's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 101 as they relate to the annual accounts.
37. The Scottish Government included in its Finance Circular 10/2020 provided guidance on the publication and inspection of the unaudited annual

accounts as a result of the COVID-19 pandemic.

38. Overall we concluded that appropriate arrangements are in place to comply with these Regulations and the guidance as set out in the Finance Circular 10/2020.

Written representations

39. We will present the final letter of representation to the Treasurer to sign at the same time as the financial statements are approved, on behalf of the Partnership.

Related parties

40. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

41. All requested third party confirmations in respect of bank and legal confirmations have been received.

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public

right to inspect and object to the accounts and consideration and signing of the audited accounts.

Wider scope

Following consideration of the size, nature and risks of the Partnership, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
-

Wider scope conclusions



Annual governance statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2021 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

Financial sustainability

Auditor judgement



Three year financial plans have been developed and approved by the Partnership. There continues to be level of uncertainty around the impact of the COVID-19 pandemic on the transport and mobility sector and as a result, the Partnership will continue to closely monitor the position.

As at 31 March 2021 the Partnership holds an unallocated general fund reserve of £29,000, which meets the minimum level required by its Reserves Policy. This has only been achieved through unplanned underspends and we encourage the Partnership to continue to reflect on its strategy to maintain, utilise or further build up the unallocated general fund reserve as part of the annual budgeting process.

With Scottish Government grant funding and council requisitions remaining the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. The Partnership has identified a key objective within its Business Plan 2021/22 to 2023/24 to increase funding levels as a result. The main change in external funding is the reduction in EU grants. With existing projects ending over the next two years, funding will reduce from £106,000 in 2021/22 to nil by 2023/24. The Partnership do not see this as a significant risk to its financial sustainability but are looking into arrangements to succeed those currently in place.

Our approach to the wider scope audit

42. Our approach to the wider scope audit (as set out in our 2020/21 External Audit Plan) builds on our understanding of the Partnership which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
- Changes in governance arrangements in response to the pandemic; and
 - Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.
43. During our audit we also considered the following risk areas as they relate to the Partnership:
- Impact of COVID-19 on financial sustainability;
44. Overall we concluded that the Partnership has appropriate arrangements in place in respect of these areas as noted below

Impact of COVID-19 on financial sustainability

In response to the UK and Scottish Government escalating the national response to the COVID-19 pandemic in March 2020, the operation of the Partnership was adapted to implement remote working. The impact of the pandemic on project delivery and the transport sector has been closely monitored.

Additional costs incurred as a result of the pandemic have been minimal. Work has been ongoing to revise operational plans to reflect the impact of COVID-19 on service delivery.

Changes in governance arrangements in response to the pandemic

Governance arrangements were adapted in response to the pandemic. Partnership Board meetings have been able to continue remotely without significant disruption. We are satisfied that the Partnership received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

Counter-fraud arrangements, included the risk of fraud and corruption in the procurement function

Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed.

We found the Partnership's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been

changes in the control environment, appropriate mitigating controls have been implemented.

We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2020/21 Annual Audit Report and deemed the level of risk to be low. We have revisited this assessment during our audit fieldwork and have not identified any changes to this.



Annual Governance statement

Our audit opinion considers whether the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016) and is consistent with the financial statements.

45. We are satisfied that the Annual Governance Statement for the year to 31 March 2021 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
46. From our audit work we have concluded that the Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting and internal control systems.
47. The Treasurer has confirmed that in his opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.
48. The Partnership's internal audit function is provided by City of Edinburgh Council's internal audit

service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Annual Governance Statement.

Governance arrangements during COVID-19

49. With national lockdown announced on 23 March 2020, all Partnership activity moved to being delivered remotely and they have continued to operate as such to date.
50. Meetings of the Partnership and the Performance and Audit Committee have been held virtually throughout the period. The September 2020 Partnership meeting was postponed to November 2020 to better align with the revised timetable for finalising the annual accounts. Governance arrangements have otherwise continued as normal throughout the period.
51. The accounting and internal control system has continued to operate effectively during remote working, with no significant changes in controls.
52. The Partnership continued to receive and consider all standing items in 2020/21 including regular budget monitoring reports, performance information and an update on ongoing activity. We are satisfied that the Partnership received sufficient and

timely information throughout the period to support effective scrutiny, challenge and decision making.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Partnership is planning effectively to continue to deliver its services or the way in which they should be delivered.

Significant audit risk

53. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

The Partnership developed a three year financial plan in 2019/20, covering the period 2020/21 to 2022/23. In November 2020, the Partnership approved an updated financial plan detailing the draft 2021/22 budget and an indicative financial plan for 2022/23. Management are currently reviewing and revising these plans to reflect the Local Government Finance Settlement for 2021/22 and to consider indicative plans beyond 2022/23.

The COVID-19 pandemic has presented unprecedented challenges to the operation and financial management of SEStran, primarily through slippage of ongoing projects. SEStran is forecasting an underspend for 2020/21, much of which is earmarked for delivery of projects in 2021/22, and budgets for subsequent years have been reprofiled to reflect the expected level of slippage. This includes a number of European Union funded projects which have been extended to 2023/

The Partnership approved a Reserves Policy in 2019/20 and agreed to work towards establishing an unallocated general fund reserve of £29,000, to mitigate core revenue budget risks and provide contingency to cushion the impact of unexpected financial events. The Partnership however sets a balanced budget at the start of each year and therefore will only achieve the target unallocated general fund reserve position through reported underspends in the year. We recommended in our 2019/20 Annual Audit Report that the Partnership should develop a strategy as part of its annual budgeting process, setting out how the unallocated general fund reserve is built up and maintained.

Whilst the financial plan presented a balanced budget for 2021/22 and 2022/23, the achievement of financial targets will depend on continuing tight control and monitoring of income and expenditure. The impacts of COVID-19 on the transport sector are expected to be significant, with uncertainty over how regional transport strategic planning, delivery and operations will need to respond.

Noted in the 2020/21 External Audit Plan



54. Our detailed findings on the Partnership's financial framework for achieving medium term financial sustainability are set out below.

Financial performance in 2020/21

55. The Comprehensive Income and Expenditure Statement for 2020/21 shows that the Partnership spent £1.606million on the delivery of services, resulting in an accounting deficit of £71,000 (2019/20: accounting surplus of £107,000).
56. The accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2020/21 Code), and which are subsequently adjusted to show their impact on reserves.
57. Taking account of these adjustments, the Partnership reported a deficit of £55,000 (2019/20: surplus of £189,000), which has been recognised against the general fund.

Reserves position

58. Since 2019/20, the enactment of provisions within the Transport (Scotland) Act 2019 allows Regional Transport Partnerships (RTP's) to manage year-end finances by enabling them to hold a balance of funds.
59. As at 31 March 2021, the Partnership held a general fund balance of £134,000 (31 March 2020: £189,000), of which £105,000 is earmarked to meet slippage on project delivery from 2020/21 to 2021/22. The remaining

balance of £29,000 is unallocated (31 March 2020: £12,000).

60. The Partnership's Reserves Policy outlines a minimum unallocated general reserve fund of 5% of the approved annual core revenue budget to mitigate core revenue budget risks. This equates to £29,000.
61. Whilst we are satisfied that the Partnership's reserves position as at 31 March 2021 (an unallocated general fund reserve of £29,000) is in compliance with the policy, this has only been achieved through unplanned underspends in 2020/21. As highlighted in our 2019/20 Annual Audit Report, the Partnership had set a balanced budget for 2020/21 and there was no strategy in place to build up this level of reserves.
62. The Partnership should continue to reflect on its strategy to maintain, utilise or further build up their unallocated general fund reserve as part of their annual budgeting process to ensure this remains sufficient.

Medium term financial planning

63. In March 2021 the Partnership approved a revenue budget of £1.472million for 2021/22 (2020/21: £1.661million) and indicative financial plans for 2022/23 and 2023/24.
64. The budget assumed a balanced position each year with no plans to utilise or increase the unallocated

general fund reserve. All three years are based on the Partnership receiving £782,000 grant from the Scottish

Government, £190,000 from constituent council requisitions and the balance met from external funding.

| | 2021/22 | 2022/23 | 2023/24 |
|----------------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 |
| Total budget | 1,472 | 1,354 | 1,296 |
| External funding | 500 | 382 | 324 |
| Scottish Government | 782 | 782 | 782 |
| Council requisition | 190 | 190 | 190 |
| Total funding | 1,472 | 1,354 | 1,296 |

Source: Revenue Budget 2021/22 and Indicative Financial Plan 2022/23 to 2023/24 – presented to the Partnership March 2021

65. The COVID-19 pandemic has continued to present unprecedented challenges to the operation and financial management of the Partnership, and to all aspects of transport and mobility. The budget has been developed in a context of uncertainty as it is unclear how long these challenges will remain.

66. Key assumptions made in developing the 2021/22 budget and indicative financial plans include;

- Estimated staff recharges to projects forecasted to decrease by £32,000 in 2021/22 compared to prior year and a further £64,000 in 2022/23;
- Pay award uplift of 2% applied in 2021/22 and 2022/23, with additional provisions made for employee increment uplifts;
- Employer pension fund contribution rate of 33.1%, with the fixed contribution sum removed

following the outcome of the 2020 actuarial valuation; and

- Other assumptions required to reflect the timing and scale of current activity.

External funding

67. With Scottish Government grant funding and council requisitions remaining at the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. External income is anticipated to fund 34% of indicative expenditure in 2021/22.

68. As set out in the table above, external funding is also anticipated to decrease over the next three years, a 35% reduction by 2023/24. In developing its Business Plan, the Partnership recognised that there is a requirement to increase funding levels over the period 2021/22 to 2023/24 to enable it to maintain the current level of activities. This has been identified as

- a key objective within the Business Plan.
69. The main change in external funding is the reduction of European Union grants. With existing EU projects ending over the next two years, funding will reduce from £106,000 in 2021/22 to nil by 2023/24.
70. The Partnership do not see this as a significant risk to its financial sustainability, with EU grants only accounting for 8% of total funding for 2020/21. However, the Partnership is continuing to closely monitor the position.
71. The Partnership is looking into future arrangements to succeed those currently in place that enable continued partnership working with the EU. At the time of writing it remains unclear whether replacement funding for projects of this nature will be obtained.
74. A key area of focus in 2021/22 is the development of the new Regional Transport Strategy (RTS) which will involve the input of the Partnership and stakeholders. A draft RTS is due to be finalised over the coming months with and subject to a 12 week statutory consultation process in autumn 2021.
75. The timeline for the development of the RTS allows the Partnership to take cognisance of the finalisation of Scotland's Second Strategic Transport Projects Review, the National Planning Framework and its component Regional Spatial Strategies. We will continue to monitor the development of the RTS and the Partnership's response to the new context from transport as it evolves.

Strategic Planning

72. The Partnership approved the SEStran Business Plan 2021-22 to 2023-24 in June 2021, having previously considered a draft version in March 2021.
73. The Business Plan outlines the Partnership's strategic objectives and planned activities which have been structured under five core strategic themes;
- Accessibility;
 - Environment;
 - Economy;
 - Safety and health; and
 - Governance and partnership working

Appendices



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Appendix 1: Respective responsibilities of the Partnership and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of the Partnership and the auditor and are detailed below.

Partnership responsibilities

The Partnership is required to make arrangements for the proper administration of financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Treasurer has been designated as that officer.

The Treasurer is responsible for the preparation of the Partnership's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

| Area | Partnership responsibilities |
|------------------------------|---|
| Corporate governance | <p>The Partnership is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> |
| Financial statements. | <p>The Partnership has responsibility for:</p> <ul style="list-style-type: none">• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;• maintaining proper accounting records; and• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Partnership. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate</p> |

| Area | Partnership responsibilities |
|--|--|
| | <p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Partnership is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p> |
| <p>Standards of conduct for prevention and detection of fraud and error</p> | <p>The Partnership is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p> |
| <p>Financial position</p> | <p>The Partnership is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. |
| <p>Best value</p> | <p>The Partnership has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p> |

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Partnership's best value arrangements has been integrated into our audit approach, including our work on the wider scope dimensions.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The total fees charged to the Partnership for the provision of services in 2020/21 (with prior year comparators) is as follows:

| | Current year £ | Prior year £ |
|---|-------------------|-----------------|
| Audit of South East of Scotland Transport Partnership (Auditor remuneration) | 8,900 | 8,640 |
| Total audit | 8,900 | 8,640 |
| Non-audit services | - | - |
| Total fees | 8,900 | 8,640 |

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Partnership.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Partnership since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected and uncorrected misstatements

We did not identify any corrected or uncorrected misstatements during our audit of the annual accounts.

Disclosure amendments

| No | Detail |
|----|---|
| 1 | Governance Report – further disclosure of information required by the Delivering Good Governance in Local Government: Framework, including confirmation of compliance with the Code of Practice on Managing the Risk of Fraud and Corruption. |

Appendix 3: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior years.

Recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Reserves Policy

Recommendation The Partnership should, as part of its annual budgeting process, develop a strategy which sets out how the unallocated general fund reserve is built up and maintained.

Rating

Other deficiency

Implementation date: 31 March 2021

Closed

The Partnership holds an unallocated general fund reserve of £29,000 as at 31 March 2021. This meets the minimum level set by the Reserves Policy. However, as outlined at paragraph 60, this has only been achieved through unplanned in year underspends.

We continue to encourage the Partnership to reflect on their strategy to maintain, utilise or further build up their unallocated general fund reserve as part of the annual budgeting process.



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